

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07  
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15  
USIA-06 AID-05 COME-00 EB-08 FRB-03 TRSE-00  
XMB-02 OPIC-03 LAB-04 SIL-01 OMB-01 STR-04 CEA-01  
AGRE-00 /090 W  
-----290630Z 019173 /11

R 282326Z MAR 77  
FM AMEMBASSY OTTAWA  
TO SECSTATE WASHDC 2954  
INFO AMCONSUL MONTREAL  
AMCONSUL TORONTO  
ALL OTHER AMCONSULS CANADA (POUCH)

LIMITED OFFICIAL USE SECTION 1 OF 02 OTTAWA 02088

DEPARTMENT PASS TREASURY, CEA, FRB

E.O. 11652: N/A  
TAGS: EFIN, CA  
SUBJECT: UPCOMING BUDGET ISSUES

1. SUMMARY. THE FEDERAL BUDGET TO BE PRESENTED MARCH 31 IS APT TO CONTAIN ONLY LIMITED DIRECT MEASURES TO REDUCE UNEMPLOYMENT AND STIMULATE MORE INVESTMENT BECAUSE OF THE CONTINUING PREOCCUPATION WITH INFLATION AND BALANCE OF PAYMENTS CONSTRAINTS. A CENTRAL CONCERN WILL BE HOW TO DECONTROL PRICES AND WAGES. THE DEBATE TO FOLLOW MAY INCLUDE PROPOSALS FOR REFORMING THE FEDERAL ECONOMIC POLICY DECISION-MAKING PROCESS. END SUMMARY

2. WHILE TAX PROPOSALS TO BE MADE IN THE NEW BUDGET ARE AS ALWAYS A CLOSELY GUARDED SECRET (SPENDING PLANS HAVE ALREADY BEEN ANNOUNCED - SEE OTTAWA 619) RECENT STATEMENTS BY FEDERAL LEADERS INDICATE THAT LITTLE CAN  
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BE EXPECTED IN THE WAY OF MAJOR TAX CUTS TO REDUCE UNEMPLOYMENT BY STIMULATING DEMAND.

3. MORE LIMITED MEASURE TO ADDRESS SECTORAL AND STRUCTURAL PROBLEMS CAN BE EXPECTED. PRIME MINISTER TRUDEAU HAS POINTED TO DEPRECIATION OF THE CANADIAN DOLLAR SINCE LAST FALL AS EVIDENCE THAT "CANADIANS ARE LIVING BEYOND

THEIR MEANS" AND HAS DOWNPLAYED THE IMPORTANCE OF THE 7.9 PERCENT UNEMPLOYMENT RATE PER SE. HE TOLD A UNIVERSITY AUDIENCE IN TORONTO MARCH 24 THAT HE HAS LITTLE SYMPATHY FOR THOSE WHO COULD NOT FIND THE JOB THEY WANTED IN TORONTO WHEN UNIVERSITY GRADUATES WERE IN SHORT SUPPLY IN OTHER PARTS OF THE COUNTRY. HE EXPRESSED FAR MORE SYMPATHY WITH STRUCTURAL UNEMPLOYMENT IN AREAS SUCH AS NEWFOUNDLAND. HIS MESSAGE WAS THAT GREATER PRODUCTIVITY THROUGH INVESTMENT AND WAGE/PRICE MODERATION WERE NEEDED TO IMPROVE INTERNATIONAL COMPETITIVENESS RATHER THAN MORE GOVERNMENT EFFORTS TO MAINTAIN CANADA'S HIGH RATE OF INCREASE IN REAL CONSUMPTION.

4. STATEMENTS BY FINANCE MINISTER MACDONALD SINCE THE BEGINNING OF THE YEAR HAVE BEEN IN THE SAME VEIN. WHILE CONCEDED THAT SOMETHING NEEDS TO BE DONE TO REDUCE UNEMPLOYMENT IN THE SHORT RUN AND THAT CURRENT FEDERAL AND PROVINCIAL FISCAL POLICIES AS A WHOLE WERE PROBABLY TOO RESTRICTIVE IN LIGHT OF THE UNEMPLOYMENT RATE, HIS STATED PRIORITIES WERE FOR ATTAINING MEDIUM TERM GOALS OF GREATER PRODUCTIVITY AND COMPETITIVENESS THROUGH HIGHER RATES OF INVESTMENT.

5. A CENTRAL PREOCCUPATION AMONG POLICY MAKERS IS THE TIMING AND MEANS OF DECONTROLLING WAGES AND PRICES IN A WAY THAT WILL AVOID A PRICE "BULGE" WHICH COULD REKINDLE INFLATIONARY EXPECTATIONS. AS ELSEWHERE, REASONABLE PRICE STABILITY IS SEEN AS THE CENTRAL MEANS FOR CALLING FORTH DESIRED HIGHER RATES OF INVESTMENT. GOVERNOR BOUEY LIMITED OFFICIAL USE

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OF THE BANK OF CANADA HAS SUGGESTED THAT CONTROLS SHOULD STAY ON IF THAT IS THE BEST WAY TO HOLD BACK PRICE INCREASES, AND HAS WARNED HE WILL NOT VALIDATE ANY WAGE/PRICE BULGE AFTER CONTROLS ARE LIFTED BY ALLOWING HIGHER RATES OF MONETARY EXPANSION. (SEE OTTAWA 1915). BUSINESS AND LABOR LEADERS HAVE CALLED FOR AN EARLY END TO CONTROLS, AND THEY HAVE SOUGHT TO INCREASE GOVERNMENT INCENTIVES TO DO SO BY SUGGESTING TO TRUDEAU THEY WILL EXERCISE (UNSPECIFIED) RESTRAINT WHEN CONTROLS ARE LIFTED (SEE OTTAWA 1962). THE HEAD OF THE UNITED STEEL WORKERS EMPHASIZED THE POINT MARCH 26 BY ANNOUNCING PLANS TO BRING THE MESSAGE TO MEMBERS THAT WAGE RESTRAINTS WERE NEEDED.

6. MACDONALD HAS SAID HE WILL GIVE HIS VIEWS ON DECONTROLS IN THE BUDGET SPEECH. IT IS NOT KNOWN HOW SPECIFIC HE WILL BE, BUT IT IS NOT LIKELY HE WILL ADVOCATE AN EARLY OR SUDDEN ABANDONMENT OF CONTROLS. HOWEVER, HE MIGHT WELL INDICATE MOVEMENT IN THE DIRECTION

OF SLOWLY TAKING OFF CONTROLS BEGINNING LATE THIS YEAR OR EARLY NEXT YEAR, PERHAPS AS INDUSTRY CONTRACTS COME UP FOR RENEWAL, COUPLED WITH CLOSE CONSULTATIONS BETWEEN GOVERNMENT, BUSINESS, AND LABOR IN SOME ADVISORY BODY OVER WAGE/PRICE TARGET AREAS ON A CASE-BY-CASE BASIS.

7. IN WRESTLING WITH THE PROBLEM OF DECONTROLS AND WAGE/PRICE POLICIES IN THE POST CONTROL PERIOD, CANADIAN AUTHORITIES PRIVATELY HAVE EXPRESSED INTEREST IN THE ANTI-INFLATION EFFORTS IN THE U.S., ESPECIALLY THE TERMS OF REFERENCE TO BE GIVEN BY THE ADMINISTRATION TO THE COUNCIL ON WAGE AND PRICE STABILITY.

8. THERE IS CONSIDERABLE DISSATISFACTION WITH THE LEVEL

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AGRE-00 /090 W

-----290629Z 019078 /11

R 282326Z MAR 77

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 2955

INFO AMCONSUL MONTREAL

AMCONSUL TORONTO

ALL OTHER AMCONSULS CANADA (BY POUCH)

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OF PUBLIC DEBATE ON ECONOMIC POLICY ISSUES BEFORE THEY ARE IMPLEMENTED. THE ECONOMIC COUNCIL, WHOSE ROLE IS TO RESEARCH MEDIUM TERM ECONOMIC POLICY ISSUES AND OPTIONS, HAS BEEN CRIPPLED BY THE NEED TO ACHIEVE A CONSENSUS IN PUBLISHED REPORTS BY ITS BUSINESS/LABOR/ GOVERNMENT DIRECTORS AND BY THE BOYCOTT OF THE COUNCIL BY LABOR LEADERS AFTER THE IMPOSITION OF CONTROLS. PROPOSALS HAVE BEEN MADE BY THE PC SHADOW MINISTER OF FINANCE STEVENS FOR A MORE OPEN DEBATE OF THE ISSUES, PERHAPS WITH A REFORMED COUNCIL OR OTHER GROUP WHICH WOULD NOT BE EXPECTED TO REACH A CONSENSUS ON ITS

RECOMMENDATIONS, AND WHICH WOULD BE ABLE TO ADDRESS  
SHORT-TERM POLICY ISSUES THAT COULD THEN BE DEBATED IN  
PUBLIC HEARINGS. TRUDEAU HAS EXPRESSED SOME SYMPATHY  
WITH THESE SUGGESTIONS AND HAS ASKED STEVENS TO PRESENT  
HIS IDEAS MORE FULLY IN THE BUDGET DEBATE. ENDERS

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## Message Attributes

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**Review Markings:**  
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